

Relationship between auditor integrity and organizational commitment to fraud prevention

Auditor integrity and organization commitment

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Received 25 February 2020
Revised 14 April 2020
Accepted 23 April 2020

Abstract

Purpose – The purpose of this research is to obtain empirical evidence about the impact of auditor's integrity and organizational commitment to the prevention of fraud.

Design/methodology/approach – This research was conducted using questionnaires distributed to all internal auditors who worked at East Java Representatives Office of Indonesia's National Government Internal Auditor. One hundred and thirteen questionnaires were distributed, and fifty-seven questionnaires were received, and all have validity eligible to use in this research. The hypothesis of this research was tested using the partial least square analysis with WarpPLS version 6.0 software.

Findings – The result of this research found that auditor's integrity and organizational commitment affect positively to fraud prevention.

Originality/value – Using government internal auditors, this study believed, brings a new insight into government internal auditor behavior.

Keywords Integrity, Organizational commitment, Internal auditor, Fraud prevention

Paper type Research paper

1. Introduction

Indonesia's National Government Internal Auditor (BPKP) is an Indonesian government agency that has to safeguard and supervise state-owned assets. In carrying out its duties, BPKP categorized into four categories, namely the implementation of audits, evaluation, assistance, consultation, elimination of corruption, collusion, and nepotism, and supervision training (BPKP, 2008). BPKP conduct external audits related to the examination of activities financed by the state budget and expenditure. BPKP services divided into the implementation of deconcentration, supporting task, and decentralization; audit (investigation) to uncover the practice of corruption. Thus, BPKP employees should have high integrity and credibility for the nation and country. However, the lack of a favorable work environment, the weak rule of law, and declining ethical values in the work environment can harm the character and integrity of an employee.

The poor ethical values carried out by an employee in a working environment are shown in the case of a forgery of the audit conducted by the representative auditor of BPKP East Java province. Auditors are accused of dishonest action by reengineering the results of the



examination of evidence cases alleged corruption of the governance election grant in East Java. The argument is one of the real forms of fraud or fraudulent action caused by decreased moral value and integrity. Deception itself is an act that is against the law committed by certain parties originating from within and outside organization that aims to benefit personally, as well as groups (Association of Certified Fraud Examiners, 2012).

Quoted from the Transparency International (www.transparency.org) website of 2016, two main actors are mostly involved in fraud, both private and government parties. The fraud that occurs in the government sector in Indonesia is increasing. The form of fraud that happens in government agencies in Indonesia is still dominated by corruption. However, other types of fraud, such as counterfeit financial statements and asset abuse, are still common. Data from Indonesia Corruption Watch (ICW) shows that the Indonesian government has lost USD 136 billion caused by corruption cases that occurred within six months, from 1 January to 30 June 2017. Based on the data, a total of 121 corruption cases were conducted at local government institutions ranging from district/city to provincial level.

Corruption is an immoral act that is detrimental to many parties and has become a common problem in the country of Indonesia. Indrayana (2011) concluded that corruption was born of centralized authority, the existence of a monopoly system, and the absence of transparency and lack of controls or monitoring of the organization. Mounting ongoing efforts have been made to eradicate and decrease the national level of corruption. It was realized by involving people in the level of government, such as governors, regents, mayors, and ministers. However, it is still not able to reduce the level of corruption that continues to increase annually. Data obtained from Transparency International in 2017, Indonesia has a Corruption Perception Index (CPI) score or a corruption perception index of 37 from the range of 0–100. With the score, Indonesia ranks 96 from 176 countries. But the Indonesian CPI score is still not able to rival and far behind the CPI scores of some other Southeast Asian countries. Malaysia, For example, has a rating of CPI 49 and Singapore with a score of CPI 84. It shows that the community's perception of corruption in Indonesia is still very high.

A person may commit fraud if there is pressure, opportunity, and rationalization (Tuanakotta, 2012; Purnamasari and Amaliah, 2015). An employee will feel depressed and deliberately to conduct fraud due to specific needs or related personal problems such as financial. Montgomery (2002) concluded that the opportunity to commit fraud is caused by weak internal control, lack of supervision in accessing information, the absence of audit procedures, and a shortage of disciplinary attitudes. Inadequate internal control and lack of oversight will trigger employees to conduct fraudulent actions in a company (Moeller, 2016; Petrascu and Alexandra, 2014).

In addition to internal control, integrity is also one of the factors that can influence fraud prevention (Golden, 2011; Love and Thomas, 2011). Integrity is a condition where a person can act according to the wishes of a person's heart under any circumstances (Arens, 2012). BPKP (2008) and the Institute of Internal Auditor (2012) said that auditors in carrying out their duties and enhance its performance must uphold integrity principles. It needs to act consistently by embedding ethical values and responsibilities following the prevailing regulations so that it can build a community to provide a basis for reliable decision making. Integrity is necessary so that auditors can act honestly and firmly in conducting audits to improve the quality of the results from the examination (Sukriah, 2009). From the explanation, it can be concluded that to achieve the performance of internal auditors and the quality of inspection results should be accompanied by an excellent effort to handle fraud problems.

Another factor that can affect fraud prevention is organizational commitment. Organizational commitment is demonstrated by the attitude of an employee connected by the firm's value (Munir and Sajid, 2010). Steers (1975) said that one of the factors that play an

essential role in improving performance is organizational commitment. Without a strong commitment, internal auditors will find it challenging to achieve the objectives of the organization. Organizational commitment is an effort to increase a firm's income and awareness or willingness to behave positively on behalf of organizations to assist in achieving the objectives and performance of the organization (Allen and Meyer, 1990). The higher the employee's commitment to the organization, the lower the chances of fraud, and the higher the level of fraud prevention performed in the organization.

This research aims to provide empirical evidence while adding literature to the relationship between integrity and organizational commitment with fraud prevention in the representative of BPKP East Java province. Also, this research is expected to contribute to providing insight into the linkage aspects of integrity and organizational commitment in providing audit opinion and surveillance prevention fraud in the government environment.

The remainder of this paper is structured as follows. Section 2 literature reviews and develops the research hypotheses. Section 3 describes the sample, variables, and research design. Section 4 specifies the empirical result. Section 5 summarizes the paper and presents concluding remarks.

2. Literature review and hypothesis development

2.1 Motivation theory

This motivation theory is one of the grand theories that can be used to provide a better understanding of the implementation of corporate policy on employees. There is a belief that human behavior is inflicted by the motivation that encourages someone to do something. According to Martoyo (2007), motivation is essentially the process of trying to influence someone to do what we want. This motivation is intended to give the employee the incentive to work with all power and effort (Manulang, 2002). This business will affect a person to act on doing something to achieve results.

2.2 Integrity and fraud prevention

Integrity in the form of ethics and control environment are two essential things related to fraud prevention. (Hernandez and Groot, 2007). Integrity is one of the factors that can affect the performance quality of government auditors who are one of the parties that must play an active role in the prevention of fraud in the government environment. In carrying out their duties and supporting the improvement of their performance, auditors must uphold the principle of integrity to act consistently with ethical values, and follow the applicable regulations to build the trust that provides the basis for reliable decision making.

Watson (2004) explains that an auditor must have a code of conduct as a moral principle or a form of behavioral regulation that governs the relationship between auditors, auditees, and communities. So the attitude of integrity is one code of ethics where auditors must have an honest, brave, wise, and responsible manner. An auditor with high integrity will always perform an action that is appropriate for the organization, in which case it is fraud prevention. Integrity attitude that is owned by an auditor will impact on the performance of auditors and quality inspection results. It is supported by research conducted by Djalil (2016), where the results show that integrity significantly relates to the performance of auditors. Also, other research conducted by Bouhawia (2015) shows that integrity has a significant relationship on audit quality, which is a critical element in the prevention of fraud. From such exposure, it can be hypothesized:

H1. Integrity has a positive relationship to fraud prevention.

2.3 Organizational commitment and fraud prevention

With a strong commitment, an organization can directly achieve its objectives. Organizational commitment is an effort to increase the potential acceptance of corporate

goals and willingness to behave positively on behalf of organizations to support the achievement of goals and organizational performance. The organization's success requires emotional involvement, sacrificing a person, and an honest relationship with the organization (Meyer and Allen, 1984). Organizational commitments can be demonstrated through a commitment to attitude and behavior commitment. (Steers, 1975). The attitude aspect is indicated by the involvement of an employee to demonstrate a loyalty attitude toward the organization. In contrast, the element of behavior is shown by the effort of the efforts of an employee in carrying out his duty and the tendency to remain and maintain his profession (Allen and Meyer, 1990).

Meyer *et al.* (1993) distinguish the organizational commitments into three dimensions, i.e. affective, continuance, and normative. Affective commitment relates to the member's emotional relationship with its organization. An employee who has high responsibility effectively will continue to be a member of the organization because it does have a desire for it. Continuance of commitment related to the awareness of organizational members will suffer losses if leaving the organization. An employee with high continuity of engagement will continue to be a member of the organization because they need to become a member of that organization. Normative commitment describes a feeling of attachment to continue to be in the organization. An employee with a high normative commitment will continue to be a member of the organization because he feels he has to be in that organization.

With some of these explanations, it can be said that an employee with a high organizational commitment tends to hold on to the firm where he or she works. In other words, the employee will take positive actions to achieve the firm's objectives. Hikmat (2014) indicates that organizational commitment positively relates to the ability of the auditor to detect fraud. From such exposure, it can be hypothesized:

H2. Organizational commitment has a positive relationship to fraud prevention.

3. Research method

3.1 Sample and data source

The population in this research is the entire functional auditor of East Java BPKP representatives, amounting to 157 auditors. Researchers use basic Slovin's formula in determining the number of samples so that the total sample used is 61 respondents based on a 10% margin of error. The data type in this research is primary data. The primary data used in this study were collected in the form of a questionnaire consisting of several question items. The questionnaire was given to the East Java BPKP representatives. Researchers use primary data because the data obtained later is expected to describe the actual situation at the sampling site.

3.2 Variable operationalization

The research consists of two variables, such as independent variables and dependent variables. Variable independent of this research is the integrity and commitment of the organization, while the dependent variable of this research is fraud prevention. According to Tuanakota (2012), fraud prevention efforts are initiated from internal control, followed by two other important concepts that raise awareness about fraud awareness and risk assessment efforts on fraud. The instrument uses a scale of interval measurement and variable measurement techniques with a Likert scale, ranging from 1 to 5. 1 means very disagreeing that shows that fraud prevention is low, and five means very agreed.

DeZoort (2012) argues that if viewed from a user's perspective, the auditor's integrity is essential as an effort to adhere to its independence rules and avoid the occurrence of conflicts

of interest during the administration of audit services. A transparent, bold, thoughtful, and responsible, honest attitude is an element of the integrity that an auditor must have to build trust and as a fundamental foundation for reliable decision making (Sukriah, 2009). The measurement of integrity in this study uses instruments in the form of questionnaires developed by Sukriah (2009), consisting of four dimensions, namely, the honesty of the auditor, the courage of the auditor, the wise attitude of the auditor, and the responsibility of auditors. The instrument uses a scale of interval measurement and variable measurement techniques with a Likert scale, ranging from point 1 to point 5. Point 1 means very disagreeing, which suggests that low integrity and 5 points mean very agreed that suggests high integrity.

Organizational commitment is an individual's strong acceptance of the firm's objectives and values, where individuals will strive and work and have a strong desire to stay in the firm. Baron and Greenberg (1990). The organizational commitment is divided into three main dimensions, which is a commitment seen reflecting the affective orientation to the organization, consideration of losses if leaving the organization, and a moral burden to continue in the organization. The measurement of the organizational commitments in this study used a questionnaire-form instrument developed by Meyer and Allen (1984). The instrument uses a scale of interval measurement and variable measurement techniques with a Likert scale, ranging from 1 to 5. 1 means very disagreeing that shows that the organization's commitment is low, and 5 means it is very agreed that demonstrates the high organizational commitment.

3.3 Research design

This research uses a causality model or influence between variable relationships using Partial Least Square (PLS) and using the help of software WarpPLS version 6.0 for the data analysis method. Other analytical techniques used are an outer model measurement, which includes reliability tests and validity tests, as well as inner-model measurements and hypothesis testing. We select as PLS as our main statistical technique, as stated by Gerlach *et al.* (1979), PLS has several advantages in econometrics study such as it need not fulfill classic assumption requirement and it is possible to use small sample size.

4. Result and discussion

4.1 Data description

The data of this research is the primary data obtained from the dissemination of the questionnaire that contains several question items to the respondent that is all the functional officers of auditors who work in the East Java BPKP. Based on the number of questionnaires distributed to respondents as many as 113 questionnaires, only 57 were willing to fill and return. So a percentage of the questionnaire that is returned and can be used in research is each 50.44%, and the percentage of questionnaires are not returned and cannot be processed by 49.55%.

Although this respondent amount is not fulfilled the minimum criteria of Slovin, in compensating that weakness, we implement validity and reliability test for each of our variable measurements. An additional point is based on the rule of thumb; our respondent amount exceeds the minimum amount of 30 sample size as this study employs three variables.

4.2 Respondent description

According to the gender of the respondent, in this study, there were 42 males (73.68%) and 15 women (26.32%). Based on the respondent's age, the average respondent in the age range of

fewer than 25 years, is five respondents (8.77%), and in the age range 25–35, and 36–45 years, 27 respondents (47.37%) and 18 respondents (31.58%), respectively. As many as seven respondents who are over 45 years old (12.28%). The average number of respondents whose education level was a bachelor's degree is 49 respondents (85.96%), and as many as eight respondents holding a master's degree (14.04%). Judging by the length of work respondents in BPKP, long work less than five years, as many as five respondents (8.77%); working tenure 6–10 years, as many as 14 respondents (24.56%); working tenure 11–15 years, nine respondents (15.79%); working period 16–20 years, as many as 17 respondents (29.83%) and more than 20 years working period, 12 respondents (21.05%).

4.3 Estimation of outer model measurement

Table 1 presents the result of the loading factor in each indicator. Indicators that have an outer loading factor value below 0.5 are considered less feasible, so they must be eliminated from the model structure. After the elimination, the calculation of the outer loading value is done. The results of the data in Table 2 indicate that the entire proxy has an outer loading factor greater than 0.5 and can be used as an indicator that can reflect each variable.

4.4 Validity test and reliability test

Table 3 indicates that the whole variable has an AVE value higher than 0.30 so that it is declared valid. Variable reliability testing can use composite reliability techniques with reliability coefficients as a measuring unit. Also, this table shows the calculation result of all variables having a linear value validity above 0.70, and means that all variables used in reliable and reliable research can be used in the subsequent analysis.

4.5 Estimation of inner model measurement

Testing the inner model is to know how much the relationship between variables in the study. The data calculation results in Table 4 indicates that fraud prevention has a value of adjusted R-square (Adjusted R2) of 0.506 (50.6%). This result shows the fraud prevention variables to be explained by 50.6% by the integrity variables and the organizational commitment. The rest (0.494) 49.4% are defined by the variables that are not tested in the study.

4.6 Relationship between integrity to fraud prevention

To examine the relationship between auditor integrity to fraud prevention, we use a partial least square model by conducting t-statistic test analysis with a significance level of 5%. The following in Table 5 is the result of the test calculation of the t-statistic relationship between auditor integrity on fraud prevention.

The data contained in Table 5 shows that the integrity variables have a positive relationship and are shown to be statistically significant, proven to fraud prevention by a level signification of 5%. This result explains if integrity increases one, then fraud prevention will have increased by 0.540 times. Based on the value of *p*-values and the regression coefficient of the relationship between an auditor's integrity and fraud prevention, it can be concluded that the integrity variable has a positive relationship and proved to be significant to fraud prevention. This relationship suggests that the first hypothesis of this research stating the relationship between integrity and fraud prevention has proved to be significant.

Integrity is a measuring instrument or benchmark in carrying out tasks for the auditors and a quality that is based on public trust. Integrity requires an auditor to have an honest, courageous, thoughtful, and responsible attitude in carrying out the task. An auditor should be honest and transparent to the results of the examination so that what is presented can

Variable	Indicator	Outer loading value	Conclusion
Integrity	T1	0.735	Significant
	T2	0.749	Significant
	T3	0.776	Significant
	T4	0.742	Significant
	T5	0.738	Significant
	T6	0.646	Significant
	T7	0.684	Significant
	T8	0.742	Significant
	T9	0.725	Significant
	T10	0.318	Not Significant
	T11	0.493	Not Significant
	T12	0.151	Not Significant
	T13	-0.448	Not Significant
	T14	-0.338	Not Significant
Organizational Commitment	K1	0.675	Significant
	K2	0.835	Significant
	K3	0.896	Significant
	K4	0.847	Significant
	K5	-0.038	Not Significant
	K6	0.067	Not Significant
	K7	-0.190	Not Significant
	K8	0.046	Not Significant
	K9	-0.097	Not Significant
	K10	0.185	Not Significant
	K11	0.034	Not Significant
	K12	0.643	Significant
	K13	0.272	Not Significant
	K14	0.293	Not Significant
K15	0.689	Significant	
K16	0.807	Significant	
K17	-0.159	Not Significant	
K18	0.206	Not Significant	
K19	0.548	Significant	
K20	0.713	Significant	
K21	0.466	Not Significant	
K22	0.382	Not Significant	
K23	0.626	Significant	
K24	0.724	Significant	
Fraud Prevention	F1	0.040	Not Significant
	F2	-0.065	Not Significant
	F3	0.728	Significant
	F4	0.812	Significant
	F5	0.849	Significant
	F6	0.786	Significant
	F7	0.806	Significant
	F8	0.519	Significant
	F9	0.655	Significant
	F10	0.643	Significant
	F11	0.824	Significant
	F12	0.813	Significant

Table 1.
Result of outer loading
factor estimation for
the first iteration

explain awareness of the fact because, in such a way, the community can recognize the professional attitude of an accountant.

The results of the auditing will be qualified when accompanied by a high integrity attitude from an internal auditor irrespective of whether the quality of the audit results will affect the

Variable	Indicator	Outer loading value	Conclusion
Integrity	T1	0.791	Significant
	T2	0.787	Significant
	T3	0.806	Significant
	T4	0.792	Significant
	T5	0.747	Significant
	T6	0.641	Significant
	T7	0.649	Significant
	T8	0.711	Significant
	T9	0.704	Significant
Organization Commitment	K1	0.663	Significant
	K2	0.847	Significant
	K3	0.887	Significant
	K4	0.861	Significant
	K12	0.624	Significant
	K15	0.705	Significant
	K16	0.835	Significant
	K19	0.572	Significant
	K20	0.711	Significant
	K23	0.629	Significant
	K24	0.716	Significant
Fraud Prevention	F3	0.729	Significant
	F4	0.812	Significant
	F5	0.848	Significant
	F6	0.786	Significant
	F7	0.806	Significant
	F8	0.521	Significant
	F9	0.656	Significant
	F10	0.644	Significant
	F11	0.822	Significant
	F12	0.813	Significant

Table 2.
Result of outer loading
factor estimation for
second interaction

Variable	Discriminant validity Original sample (O)	Composite reliability Original sample (O)
Integrity	0.546	0.915
Organizational Commitment	0.546	0.928
Fraud Prevention	0.563	0.927

Table 3.
Result of discriminat
validity and composite
reliability
measurement

Variable endogeneous	Nilai <i>R</i> -square adjusted (adjusted R^2)
Fraud Prevention	0.506

Table 4.
Adjusted *R*-square
value (adjusted R^2)

Relationship between variables	Original Sample (O)	<i>p</i> Values
Integrity → Fraud Prevention	0.540	<0.001

Table 5.
Relationship auditor
integrity to fraud

implementation of internal control of the organization in financial management or not. With the quality of the audit result, the better also the government's policy to implement internal control. Therefore, auditors should be able to uphold the responsibility of the work with high integrity to maintain the level of trust from the community. The higher the integrity auditor has, the easier the internal auditor prevents fraud because integrity affects the quality of inspection results and the performance of internal auditors.

4.7 Relationship between organizational commitment to fraud prevention

To examine the relationship between organizational commitment to fraud prevention, we use a partial least square model by conducting a t-statistic test analysis with a significance level of 5%. The following in Table 5 is the result of the test calculation of the t-statistic relationship between organizational commitment on fraud prevention.

The data contained in Table 6 indicates that the organizational commitment variable has a positive relationship and is proven statistically significant to the prevention of fraud with a level signfication of 5%. This result explains if the organizational commitments increase one, fraud prevention will increase by 0.286 times. Based on the P values and the regression coefficient of the relationship between the organizational commitment of an auditor to fraud prevention, it can be concluded that the organizational commitment variables are positive relationships and proven to be significant to fraud prevention. This result suggests that the hypothesis of this research that expresses the relationship between organizational commitment to fraud prevention proved significant.

The organizational commitment is one of the crucial factors to improve the prevention of fraud in the agencies examined by auditors who work on representatives of East Java BPKP. An auditor who has a strong emotional connection to the organization tends to have a desire and motivation to stay and contribute to the organization in which he works. Also, auditors who feel afraid to get out of the organization because they will not find the appropriate work will always work following the objectives of the organization, in this case, fraud prevention. This feeling indicates that an auditor who is pleased and has a psychological attachment to the organization can positively impact the efforts to increase fraud prevention.

Long settled auditors on the organization will find it difficult to leave the organization because there is a sense of family that arises in the auditor and the attitude of solidarity toward colleagues. Solidarity will impact the performance of competent auditors in completing their duties so that the process of improving fraud prevention is achieved. In addition to the sense of family, one's performance can also be measured from the length of work in an organization. An auditor will choose to remain in the organization to add insight and experience as a capital for the next career path. In the process of adding an auditor's idea will be diligent and active in carrying out tasks for achieving organizational objectives. This relationship indirectly leads to increased fraud prevention.

The tenure of work is influenced by how much benefits a person gains when settling in the organization. Some people will choose a firm or organization that provides a good job offer and gives a higher incentive. In contrast, the organizational value and comfort of the workspace are the main objective of a pleasant workplace for other people. By providing decent organizational values and the convenience of workspace, it will make the auditor remain in the organization. The auditor who understands this will consider switching to another organization even if it gets a better job offer because a good job offer cannot be an

Table 6. Relationship between organizational commitment to fraud prevention

Relationship between variables	Original Sample (O)	p Values
Organizational Commitment → Fraud Prevention	0.286	0.010

indicator that the organization has an excellent organizational value. A person who gets a better job offer elsewhere and feels untrue to leave the organization affects the prevention of organizational fraud.

Strong organizational commitments will encourage auditors to strive to achieve organizational objectives. The statement explains that the level of organizational commitment in the organization will have a positive impact on the auditor in doing its job. Thus, a person who has a high organizational commitment will prevent fraud occurrence that becomes one of the tasks to be high as well.

5. Conclusion

Based on the results of the research and the prescribed discussion, it can be concluded that (1) the integrity variable has a positive relationship with fraud prevention. (2) the organizational commitment variable has a positive relationship on fraud prevention. For further research, this research is expected to be developed in other institutions/firms such as public, private, or other firms that have a high level of fraud. Future research can also be improved by using a moderate variable between integrity, organizational commitment, and fraud prevention. This research has some limitations that can be used as the basis for further researchers to do future research. The limitations of this study are the possibility of filling a questionnaire that is done randomly by the respondent; it is because the author does not directly monitor the monitoring related to the filling of the questionnaire. Therefore, we suggest future research to consider direct monitoring the process of questionnaire filling. An additional suggestion for future study is to consider using an experimental research approach to provide a better understanding of fraud prevention literature

This study also provides a few implications both in academic and practice areas. First, this study adds additional knowledge regarding audit literature, especially related to fraud prevention. Second, the partners of public accounting firms can optimize the value of integrity and organizational commitment of its subordinates to provide a higher level of fraud prevention, as this study result indicates. This study's last contribution is to firm that select their auditors. The firm's management can use this study result as one indicator that needs to be considered in the context of select their auditor.

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